

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Integrate and
Refine Procurement Policies and Consider Long-
Term Procurement Plans.

Rulemaking 12-03-014
(Filed March 22, 2012)

**REPLY BRIEF OF SAN DIEGO GAS & ELECTRIC
COMPANY (U 902 E) ON TRACK I ISSUES**

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**I.
INTRODUCTION**

Pursuant to the procedural schedule established by Administrative Law Judge (“ALJ”) David Gamson and Rule 13 of the Rules of Practice and Procedure of the California Public Utilities Commission (the “Commission”), San Diego Gas & Electric Company (“SDG&E”) submits this Reply Brief regarding certain issues addressed in Track I of the above-captioned proceeding.

In the *Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge* issued May 17, 2012 (“Scoping Memo”), the Commission declared that Track I of the instant proceeding would address issues falling into two main categories: (i) local reliability needs in the Los Angeles Basin and Big Creek/Ventura area between 2014 and 2021; and (ii) allocation of responsibility for local reliability procurement obligations and related costs between investor-owned utilities (“IOUs”) and non-utility load-serving entities (“LSEs”).^{1/} Because issues related to infrastructure needs for the San Diego local area are being considered in Application 11-05-023, the discussion set forth in SDG&E’s Opening Brief was focused primarily on the second category of issues described above –

^{1/} Scoping Memo, pp. 5-6.

i.e., allocation of responsibility for local reliability procurement obligations and related costs between IOUs and non-utility LSEs.^{2/}

The opening briefs filed in this proceeding generally supported continued application of the cost allocation mechanism (“CAM”) framework that exists pursuant to Public Utilities Code § 365.1(c).^{3/} Parties were largely silent regarding SDG&E’s proposed modifications to the CAM, but were in general agreement that the Commission should reject the CAM modifications and opt out proposal presented by the Alliance for Retail Energy Markets, Direct Access Customer Coalition, and Marin Energy Authority (“AReM/DACC/MEA”).^{4/} Similarly, no affirmative support was expressed for the concept by Southern California Edison Company (“SCE”) regarding statewide allocation of certain procurement costs incurred by SCE. As discussed below, SDG&E agrees that the proposals of AReM/DACC and MEA should be rejected, along with the statewide cost allocation concept described by SCE.

In accordance with the direction provided by Judge Gamson, SDG&E adheres to the common briefing outline established in the proceeding, but includes only those section headings that are relevant to the issues it discusses herein. Accordingly, the section headings below are not contiguous and, instead, reflect the section numbering of the common brief outline.

^{2/} See *id* at p. 4, note 4. SDG&E also discussed certain general principles relevant to the Commission’s analysis of local reliability need in its Opening Brief, as well the relationship between local reliability in the Los Angeles Basin and Big Creek/Ventura area, and the San Diego and Greater Imperial Valley-San Diego areas. *Opening Brief of San Diego Gas & Electric Company on Track I Issues* (“SDG&E OB”), pp. 2-13.

^{3/} See, e.g., SDG&E OB, pp. 13-14; *Southern California Edison Company’s Opening Brief on Track I Issues* (“SCE OB”), p. 22; *Pacific Gas and Electric Company’s Track I Opening Brief* (“PG&E OB”), p. 9; *Opening Brief of The Utility Reform Network* (“TURN OB”), p. 21; *Opening Brief of the Division of Ratepayer Advocates on Local Reliability Issues* (“DRA OB”), p. 34; *Opening Brief on Track I of the California Large Energy Consumers Association* (“CLECA OB”), p. 30. All statutory references herein are to the Public Utilities Code unless otherwise noted.

^{4/} See, e.g., SDG&E OB, pp. 20-29; SCE OB, pp. 23-29; PG&E OB, pp. 9-17; TURN OB, pp. 21-26; DRA OB, pp. 35-36; CLECA OB, p. 33.

VI. COST ALLOCATION MECHANISM (CAM)

A. Proposed Allocation of Costs of Needed LCR Resources

Under the § 365.1(c) CAM, each IOU must procure the new generation resources necessary to serve its distribution service territory, with the cost and benefits of the capacity associated with these new resources being shared by all “benefitting parties” located in that IOU’s service territory. The Commission made clear in D.11-05-005 that application of the CAM is mandatory where the statutory conditions are met.^{5/} Parties addressing the issue of the CAM expressed nearly uniform support for continued allocation of capacity costs to all benefitting customers in an IOU’s distribution service territory via the CAM.^{6/}

B. Should CAM Be Modified At This Time?

(i) The Commission Should Adopt the CAM Modifications Proposed by SDG&E

As discussed in its Opening Brief, SDG&E urges the Commission to establish an explicit rebuttable presumption that the net capacity costs of resources it authorizes the utilities to procure (or orders them to build) in order to meet system or local reliability requirements will be allocated to all consumers within the procuring (or building) utility’s service territory and recovered via the CAM.^{7/} At the very least, this rebuttable presumption should apply to the costs of new generation resources resolving system or local resource deficiencies as may be determined by the Commission.^{8/} While not specifically addressing SDG&E’s proposal, discussion set forth in the Opening Brief of

^{5/} D.11-05-005, *mimeo*, p. 6.

^{6/} *See, e.g.*, SDG&E OB, pp. 13-14; SCE OB, p. 22; PG&E OB, p. 9; TURN OB, p. 21; DRA OB, p. 34; CLECA OB, p. 30.

^{7/} *See* SDG&E/Anderson, SDG&E-1, p. 11, SDG&E-2, p. 5.

^{8/} SDG&E/Anderson, SDG&E-2, p. 5.

the Division of Ratepayer Advocates (“DRA”) supports this concept. DRA observes, “[t]he Commission will authorize any necessary procurement based on calculations that reflect a forecast of the entire system’s load of all customers, including [Direct Access (“DA”)] and [“Community Choice Aggregator (“CCA”)] customers, and not just bundled customers. Because benefits from system and local reliability flow to all customers, the net capacity costs should be allocated to all customers.”^{9/}

As a practical matter, when the Commission defines an IOU’s procurement “need” to encompass a need beyond the narrow LCR need of the IOU’s bundled customers (*e.g.*, flexibility attribute for renewable integration) and authorizes IOU procurement to meet that broader need, *all* customers in an IOU’s distribution service territory benefit from the IOU’s procurement.^{10/} Indeed, as TURN points out, “all customers benefit equally from grid reliability regardless of whether they take energy service from an IOU, an Electric Service Provider (ESP) or a Community Choice Aggregator (CCA).”^{11/} Plainly, the conclusion that all LSEs in the reliability area benefit from an IOU’s procurement of local resources is reasonable; indeed, this assumption forms the basis for the ISO’s approach to allocation of generation resources.^{12/} Hence, it is logical to conclude that in most, if not every, case *all* customers in an IOU’s service territory will benefit from an IOU’s procurement of generation resources, and to adopt a rebuttable presumption that recognizes this fact. Accordingly, in order to avoid the delay and administrative burden inherent in litigating the issue of “who benefits” in each future individual case in which application of the CAM is proposed, the Commission should

^{9/} DRA OB, p. 35. DRA proposes Commission workshops to explore possible methodologies for the development of a “benefits test.” DRA OB, p. 36.

^{10/} SDG&E/Anderson, SDG&E-2, p. 1.

^{11/} TURN OB, p. 20.

^{12/} SDG&E/Anderson, SDG&E-2, pp. 5-6.

establish a rebuttable presumption that the resources that it authorizes the IOUs to procure to meet local reliability need requirements satisfy the statutory conditions of § 365.1(c) and that the CAM applies to such procurement.

The Commission should, likewise, adopt SDG&E's proposal to allow a methodology in addition to the auction mechanism to determine the net capacity costs to be allocated through the CAM.^{13/} Under § 365.1(c)(2)(C), the "net capacity cost" to be allocated through the CAM is determined by subtracting the energy and ancillary services value of the resource from the total costs paid by the IOU pursuant to a third-party contract or, in the case of utility-owned generation ("UOG"), the annual revenue requirement for the UOG resource. The Commission acknowledged the shortcomings of energy auctions as a means of determining net capacity costs in D.11-05-005.^{14/} As SDG&E witness, Robert Anderson testified in this proceeding, energy auctions do not ensure that net capacity costs are minimized and "an alternative and better methodology would be one that relies on public data to calculate how the relevant resource would have operated had it been made available to the CAISO markets at cost."^{15/}

SDG&E proposes that the non-auction cost calculation mechanism adopted in D.07-09-044 (referred to as the "Joint Parties Proposal") be deemed to be a fully-available alternative to the use of an energy auction to determine the net capacity costs for resources subject to CAM.^{16/} SDG&E recommends that the Commission either (i) eliminate the restriction that the Joint Parties' Proposal may be used only if an auction is unsuccessful or has not yet occurred, and permit the IOUs to apply the Joint Parties'

^{13/} SDG&E/Anderson, SDG&E-1, p. 9.

^{14/} D.11-05-005, *mimeo*, p. 14.

^{15/} SDG&E/Anderson, SDG&E-1, p. 10.

^{16/} At the time the utility files its application, it would state its preference for which method would be employed. SDG&E OB, p. 20.

Proposal in lieu of energy auctions until it determines through workshops what non-auction method(s) may be used on a permanent basis to establish net capacity costs; or (ii) forego workshops and simply deem the Joint Parties' Proposal to be a permanently available alternative to the energy auction approach to determining net capacity costs.^{17/} In its Opening Brief, DRA expresses support for the proposal to convene workshops to explore possible modifications to the net capacity cost calculation, observing that “[t]o the extent that market revenues can be more accurately and transparently estimated using public data, it would be beneficial to explore, in workshops, the reduction of capacity costs for all parties.”^{18/}

Removing the restriction on use of the Joint Parties' Proposal and establishing it as a fully-available non-auction mechanism for determining net capacity costs would serve the public interest inasmuch as it would provide an immediate means of addressing the Commission's (and parties') concerns regarding the existing energy auction mechanism adopted in D.07-09-044.^{19/} Accordingly, the Commission should either eliminate the current restriction on use of the Joint Parties' Proposal and permit the IOUs to apply the Joint Parties' Proposal in lieu of energy auctions as a stop-gap measure pending development through workshops of permanent non-auction method(s) to establish net capacity costs, or forego workshops and simply deem the Joint Parties' Proposal to be a permanently available alternative to the energy auction approach to determining net capacity costs.

^{17/} SDG&E/Anderson, SDG&E-2, pp. 9-10.

^{18/} DRA OB, pp. 35-36.

^{19/} See D.11-05-005, *mimeo*, p. 14.

(ii) The Commission Should Reject the CAM Modifications Proposed by AReM/DACC/MEA

The CAM modifications proposed by AReM/DACC/MEA were roundly criticized and received support from no party to the proceeding. AReM/DACC/MEA witness Mara proposes a two-step process for allocating cost through the CAM, while AReM/DACC/MEA witness Fulmer proposes modifications to the process used to determine the net capacity costs to be allocated through the CAM, as well as adoption of a cap on CAM costs allocated to non-IOU customers.^{20/} The consensus view of parties was that AReM/DACC/MEA’s proposals should be rejected.^{21/}

Like SDG&E, SCE correctly noted in its Opening Brief that AReM/DACC/MEA misstate the applicable law.^{22/} SCE pointed out that “AReM’s proposal to limit the application of CAM to situations where the need creating the costs can be attributable to all customers is inconsistent with SB 695 and SB 790, which require that CAM be applied in situations where the system or local area need *benefits* all customers.”^{23/} In addition, DRA correctly pointed out that the AReM/DACC/MEA proposal ignores the interconnected nature of the electric grid and that the proposal is flawed to the extent it “assumes that existing load has a priority right to existing generation.”^{24/} Pacific Gas & Electric Company (“PG&E”) echoes this latter point in its Opening Brief, noting that “the DA/CCA Parties’ version of cost causation unfairly assumes that CCA and DA customers

^{20/} AReM/DACC/MEA/Fulmer, AReM-1, pp. 38-43; 44-47, 47-48.

^{21/} See, e.g., SDG&E OB, pp. 20-29; SCE OB, pp. 23-29; PG&E OB, pp. 9-17; TURN OB, pp. 21-26; DRA OB, pp. 35-36; CLECA OB, p. 33.

^{22/} SCE OB, p. 25.

^{23/} *Id.* (Emphasis in original).

^{24/} DRA OB, p. 35 (citing SCE/Cushnie, Exh. SCE-2, pp. 27-29).

have first rights to and can meet their requirements exclusively from existing resources.”^{25/}

Parties were, likewise, highly critical of the CAM modifications proposed by AReM/DACC/MEA witness Fulmer. Witness Fulmer proposed: (i) an adjustment to account for ancillary services to the proxy calculation for power purchase agreements (“PPAs”) outlined in the Joint Parties’ Proposal; (ii) modifications to the CAM charge for UOG; and (iii) adoption of a cap on costs allocated to non-IOU customers through the CAM.^{26/}

With regard to the first of Mr. Fulmer’s proposed CAM modifications, parties addressing the proposal agreed that Mr. Fulmer’s analysis offered in support of the proposal to adjust the proxy calculation for power purchase agreements “ignores market realities” and relies on flawed assumptions regarding availability of ancillary services.^{27/} Parties, likewise, agreed that the proposed modification of the CAM charge related to UOG violates § 365.1(c)(2)(C), which requires that the “annual revenue requirement” rather than the annual levelized revenue requirement be used for purposes of calculating the net capacity costs of UOG, and that use of a levelized cost would disadvantage ratepayers.^{28/} Finally, parties pointed out that the recommendation to impose a cap on costs allocated through the CAM is unlawful and inequitable.^{29/} Thus, as demonstrated in Opening Briefs of SDG&E and the other parties addressing AReM/DACC/MEA’s proposals, the modifications to the CAM proposed by Ms. Mara and Mr. Fulmer are unreasonable, unnecessary and contrary to law, and should be rejected as such.

^{25/} PG&E OB, pp. 9-10.

^{26/} AReM/DACC/MEA/Fulmer, AReM-1, pp. 38-43; 44-47, 47-48.

^{27/} TURN OB, pp. 22-23; PG&E OB, pp. 11-12; SCE OB, p. 26.

^{28/} TURN OB, pp. 23-24; PG&E OB, pp. 12-13; SCE OB, pp. 25-26.

^{29/} TURN OB, p. 22; PG&E OB, pp. 13-14; SCE OB, p. 25.

C. Should Load Serving Entities (LSEs) be Able to Opt Out of CAM?

Parties commenting on AReM/DACC/MEA’s opt out proposal were uniformly opposed to it. DRA noted in its Opening Brief that the Commission has found the concept of an opt-out mechanism “appealing” where certain requirements are met, but observed that the AReM/DACC/MEA opt out proposal is not likely to result in new generation “so there is still not an appealing opt out mechanism before the Commission for review.”^{30/} Other parties, including PG&E, SCE and TURN, also opposed AReM/DACC/MEA’s opt out proposal.^{31/} Indeed, even the California Large Energy Consumers Association (“CLECA”), who pointed out that it “has supported and continues to support the concept of an opt out,” declared that it “does not support the opt-out proposed by AReM/DACC/MEA here.”^{32/} Parties opposed AReM/DACC/MEA’s opt out proposal on grounds similar to those cited by SDG&E in its Opening Brief.

By its terms, the CAM applies only to “generation resources that the commission determines *are needed to meet system or local area reliability needs for the benefit of all customers in the electrical corporation's distribution service territory.*”^{33/} Thus, by definition, the CAM is used *only* when the Commission has determined that that the benefits of a given resources extend beyond the IOU’s bundled customers. As Mr. Anderson pointed out, “since other LSEs are benefitting from the IOU’s procurement, they should not be permitted to opt out of the CAM in favor of receiving a ‘free ride’ at

^{30/} DRA OB, p. 36.

^{31/} SCE OB, pp. 27-29; PG&E OB, pp. 14-17; TURN OB, pp. 24-26.

^{32/} CLECA OB, p. 33.

^{33/} Pub. Util. Code § 365.1(c)(2)(A) (emphasis added).

utility ratepayer expense.”^{34/} SCE’s Opening Brief echoes this point, observing that “AReM’s opt out proposals fail to meet the objective of fairly and equitably allocating the costs related to CAM-related procurement to all benefitting customers.”^{35/}

In addition, an opt out mechanism would, as a practical matter, be difficult to implement and would create additional program complexity. As PG&E correctly points out in its Opening Brief, AReM/DACC/MEA’s proposal would undermine the QF/CHP Settlement adopted in D.10-12-035, adding substantial complexity, possibly altering the balance of benefits and burdens agreed to by the settling parties and raising a number of questions not addressed in AReM/DACC/MEA’s testimony.^{36/} SDG&E also agrees with PG&E that AReM/DACC/MEA’s opt out proposal gives rise to concerns regarding (i) timing of LSE opt out vis-à-vis utility solicitations for capacity; (ii) imposition of a significant and unreasonable administrative burden on the IOUs related to tracking which LSEs have opted out and which of the three proposed elections apply to each opted-out LSE; and (iii) increased ratemaking complexity.^{37/}

Finally, parties addressing AReM/DACC/MEA’s opt out proposal agreed with SDG&E’s view that adoption of the opt out proposal would unfairly shift the burden of developing new generation to utility ratepayers and could negatively impact system reliability. TURN, for example, cited its opposition to the opt out proposal and urged the Commission “to reject it based on the risks that this untested option could pose to bundled ratepayers and overall system reliability.”^{38/}

^{34/} SDG&E/Anderson, SDG&E-1, pp. 11-12.

^{35/} SCE OB, pp. 28-29.

^{36/} PG&E OB, pp. 14-15.

^{37/} *Id.* at pp. 15-17.

^{38/} TURN OB, p. 24.

In its Opening Brief, AReM/DACC/MEA sought to rebut the claim that its opt out proposal would unfairly benefit DA and CCA customers and allow them to avoid responsibility for the cost of new construction, arguing that “an ESP or CCA using the opt-out mechanisms would be required to procure new capacity if required by the Commission.”^{39/} As SDG&E explained in its Opening Brief, however, AReM/DACC/MEA’s opt out proposal would not support construction of new generation facilities.^{40/} Similarly, TURN pointed out in its Opening Brief that “the DA/CCA proposal could not reasonably be understood as a mechanism to stimulate new capacity unless there are radical changes in the overall market environment.”^{41/}

Although AReM/DACC/MEA claim in their Opening Brief that under the opt out proposal, “[t]he ESP or CCA requesting and implementing the Opt-Out engages in its own procurement and meets the reliability requirements determined by the Commission,” the proposal contains no details regarding an enforcement mechanism.^{42/} The lack of a clear enforcement mechanism removes any negative consequence associated with ESP/CCA opt out based on a five-year contract for new generation in the event the contract subsequently fails to deliver the promised generation. As TURN correctly pointed out in its Opening Brief, “the AReM/DACC/MEA proposal is based on the notion that failure to satisfy the opt-out obligations would have few, if any, real-world consequences for DA/CCA providers.”^{43/}

^{39/} AReM/DACC/MEA OB, pp. 27-28.

^{40/} SDG&E OB, pp. 27-28.

^{41/} TURN OB, p. 25.

^{42/} See AReM/DACC/MEA OB, p. 28.

^{43/} TURN OB, p. 26.

SDG&E agrees with TURN’s observation that “[t]his cavalier attitude could lead to significant opt-outs by DA/CCAs based on unrealistic (and unfinanceable) contracts for new generation that fails to materialize,”^{44/} as well as SCE’s assertion that “if the LSE fails to perform in delivering the promised capacity, there will likely be insufficient time to mitigate the reliability impact of performance failures or emergency mitigations actions would likely not be cost effective compared to options that were previously available.”^{45/} Notwithstanding the obvious concerns regarding system reliability, AReM/DACC/MEA witness Mara was unable to effectively address the issue of system reliability in the context of the opt out proposal.^{46/}

In short, as discussed by SDG&E and several other parties, the AReM/DACC/MEA opt out proposal is poorly-conceived, unfair to utility ratepayers and creates the potential for negative impacts on system reliability. Accordingly, the Commission should reject the opt out proposal in its entirety.

VII. OTHER ISSUES

C. SCE Statewide Cost Allocation Proposal

Of the parties addressing SCE’s statewide cost allocation concept, no party expressed affirmative support for the idea. The statewide allocation concept, described by SCE witness Cushnie, involves statewide allocation by SCE of the cost differential between a least-cost, non-flexible resource that would meet SCE’s LCR need, and a more expensive Commission-authorized resource that provides a flexibility benefit in an instance where SCE is ordered by the Commission to procure a resource that offers

^{44/} *Id.*

^{45/} SCE OB, p. 29.

^{46/} See SDG&E OB, p. 29; TURN OB, pp. 25-26.

flexibility benefits.^{47/} While SCE’s statewide allocation concept is described at a high level by Mr. Cushnie and is not a fully-developed proposal, it is clear that the fundamental premise of the concept – that SCE may allocate cost on a statewide basis – is flawed and that the Commission may (and indeed should) reject the concept on that ground alone.

As SDG&E pointed out in its Opening Brief, it is clear that authority for SCE’s statewide allocation concept does not reside in § 365.1(c), which permits an IOU to procure generation to meet system or local area reliability need only on behalf of customers located in *its own* distribution service territory, and likewise to allocate the net capacity costs of such generation only to benefitting customers located in *its own* distribution service territory.^{48/} PG&E echoed this point in its Opening Brief, noting that “SCE has provided neither any analysis nor credible precedent to support having the Commission allocate to PG&E’s customers a portion of SCE’s costs to procure incremental capacity to meet the long-term LCR need in the LA Basin or elsewhere in SCE’s service territory.”^{49/}

In short, SCE has no authority to procure resources to meet a system or local area reliability need on behalf of customers located in the service territories of SDG&E or

^{47/} SCE/Cushnie, Exh. SCE-1, p. 26; SCE-2, pp. 5-6; Tr. Vol. 4, pp. 702-717.

^{48/} Pub. Util. Code § 365.1(c)(2)(A). The provision directs the Commission to:

Ensure that, in the event the commission authorizes, in the situation of a contract with a third party, or orders, in the situation of utility-owned generation, ***an electrical corporation*** to obtain generation resources that the commission determines are needed to meet system or local area reliability needs for the benefit of all customers in ***the electrical corporation’s*** distribution service territory, the net capacity costs of those generation resources are allocated on a fully nonbypassable basis consistent with departing load provisions as determined by the commission, to all of the following:

- (i) Bundled service customers of the electrical corporation.
- (ii) Customers that purchase electricity through a direct transaction with other providers.
- (iii) Customers of community choice aggregators.

^{49/} PG&E OB, p. 22.

PG&E, or to allocate costs of such procurement to customers of SDG&E or PG&E. On this basis alone, the Commission can and should reject SCE's statewide cost allocation proposal. While DRA and CLECA suggested in their respective Opening Briefs that consideration of the statewide allocation concept is premature, and left the door open for future consideration of the issue, SDG&E notes that the goal articulated by DRA of conserving scarce Commission resources will be furthered by a clear signal at this point that SCE's concept is unviable, which will prevent dedication of future time and resources to pursuit of the concept.^{50/}

In addition to contravening express statutory direction, SCE's cost allocation concept – even in its most basic form – is inequitable and should be rejected by the Commission on policy grounds. As PG&E correctly pointed out, “[m]any of the resources in PG&E's and SDG&E's service areas also provide operational flexibility to the CAISO system. Since no flexibility capacity costs are allocated from PG&E and SDG&E to SCE's service area, it would be completely unfair, and one-sided against customers in PG&E's and SDG&E's service areas, for a portion of the costs of flexible capacity from SCE's service area to be allocated to PG&E's and SDG&E's service areas as a result of this proceeding.”^{51/} SDG&E has for some time included the flexibility attribute in its solicitations for new local capacity and in doing so, has not sought to recover payment from customers located in the distribution service territories of SCE or PG&E.^{52/} SDG&E has instead sought to allocate costs only to the benefitting customers located in *its own* distribution serve territory, in accordance with the requirements of § 365.1(c)(2)(A). Mr. Cushnie's discussion of SCE's statewide allocation concept fails to

^{50/} See DRA OB, pp. 39-40; see also CLECA OB, p. 34.

^{51/} PG&E OB, p. 23.

^{52/} SDG&E/Anderson, Tr. Vol. 7, p. 1211-1213.

acknowledge or account for the system benefits provided to customers located in SCE's distribution service territory by SDG&E's and PG&E's past procurement of flexible resources.

Thus, the requirements of § 365.1(c)(2)(A) and fundamental principles of equity preclude adoption of SCE's statewide cost allocation concept. While the concept is not fully developed, it is clear that the basic premise of the concept is fundamentally flawed and that no additional program detail could cure or overcome the fact that SCE lacks authority to allocate costs to customers located outside its service territory. The Commission should make this determination plain now in order to prevent further time and resources being spent on a proposal that is unlawful and inequitable, and has no chance of being adopted.

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**VIII.
CONCLUSION**

For the reasons set forth herein and in SDG&E's Opening Brief, the Commission should continue to apply the existing CAM, with the modifications proposed by SDG&E. In addition, the Commission should reject the CAM modifications proposed by AReM/DACC/MEA, as well as the statewide cost allocation concept discussed by SCE.

Dated this 12th day of October, 2012 in San Diego, California.

Respectfully submitted,

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